

HIGHLAND COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS,
BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION
AND SCHEDULE OF FINDINGS

JUNE 30, 2015

HIGHLAND COMMUNITY SCHOOL DISTRICT
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HIGHLAND COMMUNITY SCHOOL DISTRICT
Officials
June 30, 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education		
Kevin Engel	President	2017
Mike Golden	Vice President	2015
Lois Schneider	Board Member	2015
Cindy Michel	Board Member	2015
Tara Black	Board Member	2015
Rachel Longbine	Board Member	2017
Laura Temple	Board Member	2017

School Officials

Chris Armstrong	Superintendent	2015
Sue Rich	District Secretary/Treasurer	Indefinite
C. Joseph Holland	Attorney	Indefinite

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Muscatine, Iowa 52761
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Independent Auditor's Report

To the Board of Education of
Highland Community School District:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Highland Community School District, Riverside, Iowa, as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I express no such opinion.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Highland Community School District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 16 to the financial statements, Highland Community School District adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27. My opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the District's Proportionate Share of the Net Pension Liability, the Schedule of District Contributions and the Schedule of Funding Progress for the Retiree Health Plan on pages 5 through 14 and 49 through 55 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. I have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Highland Community School District's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements. The supplementary information included in Schedules 1 through 7, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated February 23, 2016 on my consideration of Highland Community School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Highland Community School District's internal control over financial reporting and compliance.

Kay L. Chapman, CPA PC

Kay L. Chapman, CPA PC
February 23, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Highland Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2015. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2015 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$7,813,202 in fiscal 2014 to \$8,006,248 in fiscal 2015 and General Fund expenditures increased from \$7,381,212 in fiscal 2014 to \$7,950,919 in fiscal 2015. The District's General Fund balance increased from \$343,412 in fiscal 2014 to \$398,741 in fiscal 2015, a 17% increase.
- The increase in the General Fund revenues was attributable to increased property taxes due to an increase in property valuation for the 2015 fiscal year. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits of the certified staff, increased utility costs, tuition out expenses, operations and maintenance.
- USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Position and a Statement of Activities. These provide information about the activities of Highland Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Highland Community School District's operations in more detail than the government-wide financial statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year, the District's proportionate share of the net pension liability and related contributions, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental and enterprise funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Highland Community School District Annual Financial Report

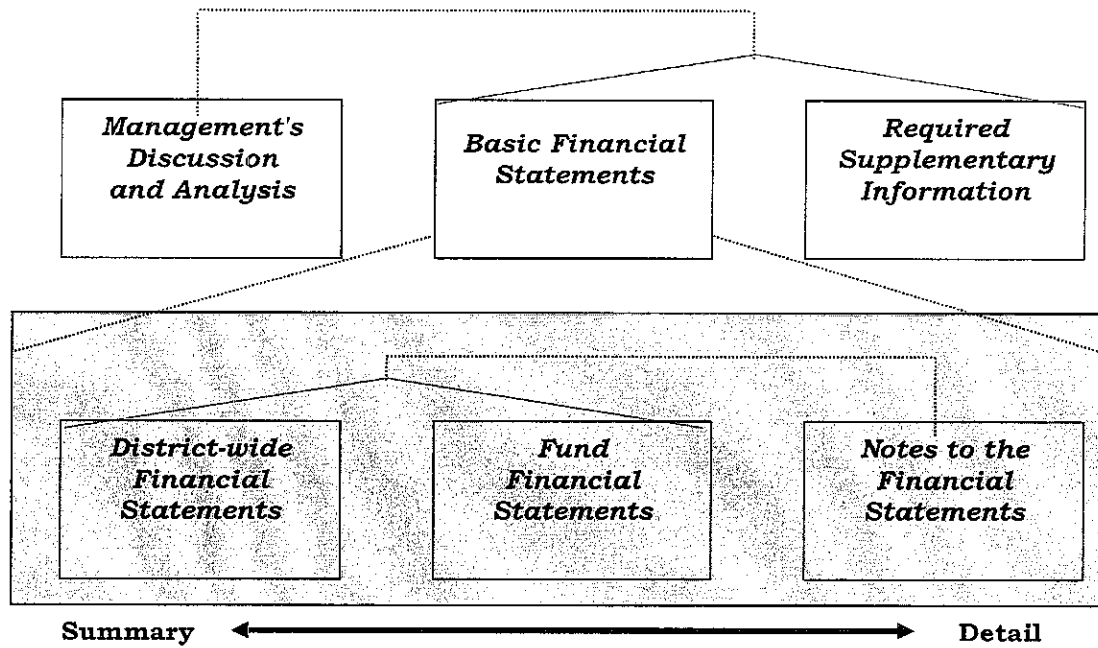


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2			
Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: food services and preschool program
Required financial statements	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of deferred outflow/inflow information	Consumption/acquisition of net position that is applicable to a future reporting period	Consumption/acquisition of fund balance that is applicable to a future reporting period	Consumption/acquisition of net position that is applicable to a future reporting period
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net position and how it has changed. Net position is one way to measure the District's financial health or

financial position. Over time, increases or decreases in the District's net position is an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and preschool programs are included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds, or to show it is properly using certain revenues, such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, the Special Revenue Funds, the Debt Service Fund and the Capital Projects Fund.

The required financial statements for governmental funds include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Fund, one type of proprietary fund, is the same as its business type activities but provides more detail and additional information, such as cash flows. The District currently has two enterprise funds, the School Nutrition Fund and Preschool Fund. Internal service funds, the other type of proprietary fund, are optional and available to report activities that provide supplies and services for other District programs and activities. The District currently has one internal service fund.

The required financial statements for proprietary funds include a Statement of Net Position, Statement of Revenues, Expenses and Changes in Fund Net Position and a Statement of Cash Flows.

Reconciliations between the government-wide financial statements and the governmental fund financial statements follow the governmental fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net position at June 30, 2015 compared to June 30, 2014.

Figure A-3

Condensed Statement of Net Position							
	Governmental		Business Type		Total		Total
	Activities		Activities		District		Change
	June 30,		June 30,		June 30,		June 30,
	2015	2014 (Not restated)	2015	2014 (Not restated)	2015	2014 (Not restated)	2014-2015
Current and other assets	\$ 6,898,458	\$ 6,214,965	\$ 75,638	\$ 85,765	\$ 6,974,096	\$ 6,300,730	10.69%
Capital assets	<u>9,580,501</u>	<u>9,603,791</u>	<u>36,971</u>	<u>16,475</u>	<u>9,617,472</u>	<u>9,620,266</u>	-0.03%
Total assets	<u>16,478,959</u>	<u>15,818,756</u>	<u>112,609</u>	<u>102,240</u>	<u>16,591,568</u>	<u>15,920,996</u>	4.21%
Deferred outflows of resources	<u>528,503</u>	-	<u>14,744</u>	-	<u>543,247</u>	-	100.00%
Long-term liabilities	8,503,365	6,078,924	73,037	-	8,576,402	6,078,924	41.08%
Other liabilities	<u>1,000,077</u>	<u>977,716</u>	<u>30,381</u>	<u>34,715</u>	<u>1,030,458</u>	<u>1,012,431</u>	1.78%
Total liabilities	<u>9,503,442</u>	<u>7,056,640</u>	<u>103,418</u>	<u>34,715</u>	<u>9,606,860</u>	<u>7,091,355</u>	35.47%
Deferred inflows of resources	<u>5,239,407</u>	<u>3,788,716</u>	<u>28,218</u>	-	<u>5,267,625</u>	<u>3,788,716</u>	39.03%
Net position							
Net investment							
in capital assets	5,260,501	4,803,791	36,971	16,475	5,297,472	4,820,266	9.90%
Restricted	1,049,501	997,611	-	-	1,049,501	997,611	5.20%
Unrestricted	<u>(4,045,389)</u>	<u>(828,002)</u>	<u>(41,254)</u>	<u>51,050</u>	<u>(4,086,643)</u>	<u>(776,952)</u>	-425.98%
Total net position	<u>\$ 2,264,613</u>	<u>\$ 4,973,400</u>	<u>\$ (4,283)</u>	<u>\$ 67,525</u>	<u>\$ 2,260,330</u>	<u>\$ 5,040,925</u>	-55.16%

The District's total net position decreased by approximately 55%, or \$2,780,595, from the prior year. The largest portion of the District's net position is invested in capital assets (e.g., land, infrastructure, intangibles, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with resources other than capital assets.

Restricted net position represents resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net position increased \$51,890, or approximately 5% over the prior year.

Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements - decreased \$3,309,691 or approximately 426%. This reduction in

unrestricted net position was primarily a result of the District's net pension liability and expense recorded in the current year.

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27 was implemented during fiscal year 2015. The beginning net position as of July 1, 2014 for governmental activities and business type activities were restated by \$3,224,212 and \$91,856, respectively, to retroactively, report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. Fiscal year 2013 and 2014 financial statement amounts for net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past, pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Figure A-4 shows the changes in net position for the year ended June 30, 2015 compared to the year ended June 30, 2014.

Figure A-4
Change in Net Position

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2015</u>	2014 (Not restated)	<u>2015</u>	2014 (Not restated)	<u>2015</u>	2014 (Not restated)	<u>2014-2015</u>
Revenues							
Program revenues							
Charges for service	\$ 858,580	\$ 945,006	\$ 212,716	\$ 209,035	\$ 1,071,296	\$ 1,154,041	-7.17%
Operating grants and contributions	1,067,441	1,032,449	159,793	149,859	1,227,234	1,182,308	3.80%
General revenues							-
Property tax	4,271,162	3,755,776	-	-	4,271,162	3,755,776	13.72%
Statewide sales, services and use tax	615,818	577,786	-	-	615,818	577,786	6.58%
Unrestricted state grants	2,866,787	3,070,623	-	-	2,866,787	3,070,623	-6.64%
Contributions and donations	117,431	82,375	-	-	117,431	82,375	42.56%
Unrestricted investment earnings	774	688	9	5	783	693	12.99%
Other	6,888	17,185	-	-	6,888	17,185	-59.92%
Gain (loss) on disposal of assets	-	3,458	-	-	-	3,458	-100.00%
Total revenues	<u>9,804,881</u>	<u>9,485,346</u>	<u>372,518</u>	<u>358,899</u>	<u>10,177,399</u>	<u>9,844,245</u>	3.38%
Program expenses							
Governmental activities							
Instruction	5,558,612	5,253,949	-	-	5,558,612	5,253,949	5.80%
Support services	2,944,537	2,796,260	-	-	2,944,537	2,796,260	5.30%
Non-instructional programs	685	-	352,470	339,834	353,155	339,834	3.92%
Other expenses	<u>785,622</u>	<u>810,292</u>	<u>-</u>	<u>-</u>	<u>785,622</u>	<u>810,292</u>	-3.04%
Total expenses	<u>9,289,456</u>	<u>8,860,501</u>	<u>352,470</u>	<u>339,834</u>	<u>9,641,926</u>	<u>9,200,335</u>	4.80%
Change in net position	515,425	624,845	20,048	19,065	535,473	643,910	-16.84%
Net position, beginning of year, as restated	<u>1,749,188</u>	<u>4,348,555</u>	<u>(24,331)</u>	<u>48,460</u>	<u>1,724,857</u>	<u>4,397,015</u>	-60.77%
Net position, end of year	<u>\$ 2,264,613</u>	<u>\$ 4,973,400</u>	<u>\$ (4,283)</u>	<u>\$ 67,525</u>	<u>\$ 2,260,330</u>	<u>\$ 5,040,925</u>	-55.16%

In fiscal year 2015, property tax and unrestricted state grants accounted for approximately 73% of governmental activities revenue while charges for service and sales and operating grants and contributions account for almost 100% business type activities revenue. The District's total revenues were \$10,177,399 of which \$9,804,881 was for governmental activities and \$372,518 was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 3% increase in revenues and a 5% increase in expenses. The increase in revenues was due to increased property taxes and grants from the Washington County Riverboat Foundation. The increase in expenses was due primarily to an increase in the negotiated salary and benefits of the certified staff and salary increases for the support staff and administration.

Governmental Activities

Revenues for governmental activities were \$9,804,881 and expenses were \$9,289,456 for the year ended June 30, 2015.

The following table presents the total and net cost of the District's major governmental activities, instruction, support services, non-instructional programs and other expenses, for the year ended June 30, 2015 compared to the year ended June 30, 2014.

Figure A-5

	Total and Net Cost of Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2015	2014 (Not restated)	Change 2014-2015	2015	2014 (Not restated)	Change 2014-2015
Instruction	\$ 5,558,612	\$ 5,253,949	5.8%	\$ 3,932,804	\$ 3,545,385	10.9%
Support services	2,944,537	2,796,260	5.3%	2,910,498	2,790,104	4.3%
Non-instructional programs	685	-	100.0%	685	-	100.0%
Other expenses	<u>785,622</u>	<u>810,292</u>	-3.0%	<u>519,448</u>	<u>547,557</u>	-5.1%
Total expenses	<u>\$ 9,289,456</u>	<u>\$ 8,860,501</u>	4.8%	<u>\$ 7,363,435</u>	<u>\$ 6,883,046</u>	7.0%

For the year ended June 30, 2015:

- The cost financed by users of the District's programs was \$858,580.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,067,441.
- The net cost of governmental activities was financed with \$4,886,980 in property and other taxes and \$2,866,787 in unrestricted state grants.

Business Type Activities

Revenues for business type activities during the year ended June 30, 2015 were \$372,518 representing an increase of approximately 4% over the prior year, while expenses totaled \$352,470, a 4% increase over the prior year. The District's business type activities include the School Nutrition Fund and Preschool Fund. Revenues for these activities were comprised of charges for service, federal and state reimbursements and investment income. The increase in expenses was due to higher food costs and purchasing equipment for the kitchen. The increase in revenues was due to more students utilizing the hot lunch program and receiving some grants in the school nutrition fund.

INDIVIDUAL FUND ANALYSIS

As previously noted, Highland Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,351,629, well above last year's ending fund balances of \$1,194,007. The primary reason for the increase was due to improvement in the fund balance of the General Fund.

Governmental Fund Highlights

- The General Fund balance increased from \$343,412 in 2014 to \$398,741 in 2015. The District increased the General Fund balance due to careful monitoring of the General Fund expenditures.
- The Capital Projects Fund - Statewide Sales, Services and Use Tax Fund balance decreased from \$753,233 in 2014 to \$738,407 in 2015 due to payments made for summer buildings & grounds projects.

Proprietary Fund Highlights

Enterprise Fund net position increased from \$(24,331) at June 30, 2014 to \$(4,283) at June 30, 2015, representing an increase of approximately 83%. This increase was due to more efficient use of government commodities and careful monitoring of food purchases. The District also reflected the related expenses for the net pension liability, which reduced net position.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Highland Community School District amended its budget one time to reflect additional expenditures associated with instruction and support services.

The District's revenues were \$56,965 more than budgeted revenues, a variance of less than 1%.

Total expenditures were \$803,863 less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through the line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the non-instructional programs function due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had invested \$9,617,472, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This

represents a net decrease of less than 1% from last year. More detailed information about the District's capital assets is presented in Note 6 to the financial statements. Depreciation expense for the year was \$547,972.

The original cost of the District's capital assets was \$15,213,444. Governmental funds account for \$15,085,996, with the remainder of \$127,448 accounted for in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the furniture and equipment category, which increased from \$568,329 in 2014 to \$658,354 in 2015. This was due to additional equipment being purchased in fiscal year 2015.

Figure A-6

Capital Assets, Net of Depreciation

	Governmental Activities		Business Type Activities		Total District		Total Change
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2014-2015</u>
Land	\$ 226,612	\$ 226,612	\$ -	\$ -	\$ 226,612	\$ 226,612	0.00%
Buildings and improvements	7,045,125	7,107,664	-	-	7,045,125	7,107,664	-0.88%
Improvements, other than buildings	1,687,381	1,717,661	-	-	1,687,381	1,717,661	-1.76%
Furniture and equipment	<u>621,383</u>	<u>551,854</u>	<u>36,971</u>	<u>16,475</u>	<u>658,354</u>	<u>568,329</u>	15.84%
Totals	<u>\$9,580,501</u>	<u>\$9,603,791</u>	<u>\$36,971</u>	<u>\$16,475</u>	<u>\$9,617,472</u>	<u>\$9,620,266</u>	-0.03%

Long-Term Debt

At June 30, 2015, the District had \$8,576,402 in general obligation and other long-term debt outstanding. This represents a decrease of approximately 12% from last year. (See Figure A-7) Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

The District continues to carry a general obligation bond rating of A assigned by national rating agencies to the District's debt since 1997. The Constitution of the State of Iowa limits the amount of general obligation debt districts can issue to 5 percent of the assessed value of all taxable property within the District. The District's outstanding general obligation debt is significantly below its constitutional debt limit of approximately \$13 million.

Figure A-7

Outstanding Long-term Obligations			
	Total District		Total Change
<u>Governmental Activities</u>	<u>2015</u>	<u>2014</u>	<u>2014-2015</u>
General obligation bonds	\$ 695,000	\$ 925,000	-24.86%
Revenue bonds	2,925,000	3,075,000	-4.88%
Capital loan notes	700,000	800,000	-12.50%
Compensated absences	13,561	14,103	-3.84%
Termination benefits	138,252	91,455	51.17%
Net pension liability	2,563,646	3,601,943	-28.83%
Net OPEB liability	<u>1,467,906</u>	<u>1,173,366</u>	25.10%
	<u>8,503,365</u>	<u>9,680,867</u>	-12.16%
<u>Business Type Activities</u>			
Net pension liability	<u>73,037</u>	<u>102,617</u>	-28.83%
Total	<u>\$ 8,576,402</u>	<u>\$ 9,783,484</u>	-12.34%

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances which could significantly affect its financial health in the future:

- The District decided not to have a 3 year old preschool in Ainsworth as there was not enough students to sustain the program.
- The District will be keeping a close eye on the spending authority as it decreased substantially this fiscal year. Possible cuts will need to be made in the future if this continues to decrease.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sue Rich, Board Secretary/Treasurer, Highland Community School District, 1715 Vine Avenue, Riverside, Iowa 52327.

Basic Financial Statements

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Net Position
June 30, 2015

Exhibit A

	Governmental Activities	Business Type Activities	Total
Assets			
Cash, cash equivalents and pooled investments			
Cash with fiscal agent	\$ 455,663	\$ -	\$ 455,663
Other	1,596,584	66,318	1,662,902
Receivables			
Property tax			
Delinquent	28,904	-	28,904
Succeeding year	4,261,706	-	4,261,706
Income surtax	311,362	-	311,362
Due from other governments	235,247	289	235,536
Due from other fund	8,992	-	8,992
Inventories	-	9,031	9,031
Non-depreciable capital assets	226,612	-	226,612
Capital assets, net of accumulated depreciation	9,353,889	36,971	9,390,860
Total assets	<u>16,478,959</u>	<u>112,609</u>	<u>16,591,568</u>
Deferred Outflows of Resources			
Pension related deferred outflows	<u>528,503</u>	<u>14,744</u>	<u>543,247</u>
Liabilities			
Accounts payable	185,878	-	185,878
Salaries and benefits payable	730,794	16,655	747,449
Unearned revenue	-	4,734	4,734
Accrued interest payable	83,405	-	83,405
Due to other fund	-	8,992	8,992
Long-term liabilities			
Portion due within one year			
General obligation bonds payable	230,000	-	230,000
Revenue bonds payable	155,000	-	155,000
Capital loan notes payable	100,000	-	100,000
Termination benefits	40,002	-	40,002
Portion due after one year			
General obligation bonds payable	465,000	-	465,000
Revenue bonds payable	2,770,000	-	2,770,000
Capital loan notes payable	600,000	-	600,000

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Net Position
June 30, 2015

Exhibit A

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
Liabilities (continued)			
Long-term liabilities (continued)			
Portion due after one year (continued)			
Compensated absences	\$ 13,561	\$ -	\$ 13,561
Termination benefits	98,250	-	98,250
Net pension liability	2,563,646	73,037	2,636,683
Net OPEB liability	1,467,906	-	1,467,906
Total liabilities	<u>9,503,442</u>	<u>103,418</u>	<u>9,606,860</u>
Deferred Inflows of Resources			
Unavailable property tax revenue	4,261,706	-	4,261,706
Pension related deferred inflows	977,701	28,218	1,005,919
Total deferred inflows of resources	<u>5,239,407</u>	<u>28,218</u>	<u>5,267,625</u>
Net Position			
Net investment in capital assets	5,260,501	36,971	5,297,472
Restricted for			
Categorical funding	202,525	-	202,525
Physical plant and equipment	16,887	-	16,887
Student activities	91,682	-	91,682
School infrastructure	738,407	-	738,407
Unrestricted	(4,045,389)	(41,254)	(4,086,643)
Total net position	<u>\$ 2,264,613</u>	<u>\$ (4,283)</u>	<u>\$ 2,260,330</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2015

Exhibit B

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest		Governmental Activities	Business Type Activities	Total
Governmental activities							
Instruction							
Regular instruction	\$ 3,406,587	\$ 673,524	\$ 714,759	\$ -	\$ (2,018,304)	\$ -	\$ (2,018,304)
Special instruction	1,163,769	141,781	82,111	-	(939,877)	-	(939,877)
Other instruction	988,256	9,467	4,166	-	(974,623)	-	(974,623)
	5,558,612	824,772	801,036	-	(3,932,804)	-	(3,932,804)
Support services							
Student	186,961	-	-	-	(186,961)	-	(186,961)
Instructional staff	253,696	-	-	-	(253,696)	-	(253,696)
Administration	1,207,976	-	-	-	(1,207,976)	-	(1,207,976)
Operation and maintenance of plant	800,307	25,058	-	-	(775,249)	-	(775,249)
Transportation	495,597	8,750	231	-	(486,616)	-	(486,616)
	2,944,537	33,808	231	-	(2,910,498)	-	(2,910,498)
	685	-	-	-	(685)	-	(685)
Non-instructional programs							
Other expenses							
Facilities acquisition	31,686	-	-	-	(31,686)	-	(31,686)
Long-term debt interest	172,261	-	-	-	(172,261)	-	(172,261)
AEA flowthrough	266,174	-	266,174	-	-	-	-
Depreciation (unallocated) *	315,501	-	-	-	(315,501)	-	(315,501)
	785,622	-	266,174	-	(519,448)	-	(519,448)
	9,289,456	858,580	1,067,441	-	(7,363,435)	-	(7,363,435)
Total governmental activities							

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Statement of Activities

For the Year Ended June 30, 2015

Exhibit B

	Program Revenues				Net (Expense) Revenue and Changes in Net Position	
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities
Functions/Programs (continued)						
Business type activities						
Non-instructional programs						
Food service operations	\$ 338,765	\$ 194,531	\$ 159,793	\$ -	\$ -	\$ 15,559
Preschool operations	13,705	18,185	-	-	-	4,480
Total business type activities	352,470	212,716	159,793	-	-	20,039
Total	\$ 9,641,926	\$ 1,071,296	\$ 1,227,234	\$ -	(7,363,435)	20,039
						(7,343,396)
General Revenues						
Property tax levied for						
General purposes					3,664,902	-
Debt service					247,903	-
Capital outlay					358,357	-
Statewide sales, services and use tax					615,818	-
Unrestricted state grants					2,866,787	-
Contributions and donations					117,431	-
Unrestricted investment earnings					774	9
Other					6,888	-
Total general revenues					7,878,860	9
Change in net position					515,425	20,048
Net position beginning of year, as restated					1,749,188	(24,331)
Net position end of year					\$ 2,264,613	\$ (4,283)
						\$ 2,260,330

* This amount excludes the depreciation included in the direct expenses of the various programs.

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2015

Exhibit C

	General	Capital Projects Statewide Sales, Services and Use Tax	Debt Service	Nonmajor Governmental Funds	Total
Assets					
Cash, cash equivalents and pooled investments					
Cash with fiscal agent	\$ -	\$ 455,663	\$ -	\$ -	\$ 455,663
Other	1,125,090	187,206	53,268	173,931	1,539,495
Receivables					
Property tax					
Delinquent	22,548	-	1,651	4,705	28,904
Succeeding year	2,956,597	-	704,500	600,609	4,261,706
Income surtax	311,362	-	-	-	311,362
Due from other governments	139,709	95,538	-	-	235,247
Due from other funds	8,992	-	-	-	8,992
Total assets	<u>\$ 4,564,298</u>	<u>\$ 738,407</u>	<u>\$ 759,419</u>	<u>\$ 779,245</u>	<u>\$ 6,841,369</u>
Liabilities, Deferred Inflows of Resources and Fund Balances					
Liabilities					
Accounts payable	\$ 166,804	\$ -	\$ -	\$ 19,074	\$ 185,878
Salaries and benefits payable	730,794	-	-	-	730,794
Total liabilities	<u>897,598</u>	<u>-</u>	<u>-</u>	<u>19,074</u>	<u>916,672</u>
Deferred inflows of resources					
Unavailable revenue					
Succeeding year property tax	2,956,597	-	704,500	600,609	4,261,706
Income surtax	311,362	-	-	-	311,362
Total deferred inflows of resources	<u>3,267,959</u>	<u>-</u>	<u>704,500</u>	<u>600,609</u>	<u>4,573,068</u>
Fund balances					
Restricted for					
Categorical funding	202,525	-	-	-	202,525
School infrastructure	-	738,407	-	-	738,407
Student activities	-	-	-	91,682	91,682
Management levy purposes	-	-	-	50,993	50,993
Physical plant and equipment	-	-	-	16,887	16,887
Debt service	-	-	54,919	-	54,919
Unassigned	196,216	-	-	-	196,216
Total fund balances	<u>398,741</u>	<u>738,407</u>	<u>54,919</u>	<u>159,562</u>	<u>1,351,629</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,564,298</u>	<u>\$ 738,407</u>	<u>\$ 759,419</u>	<u>\$ 779,245</u>	<u>\$ 6,841,369</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Reconciliation of the Balance Sheet - Governmental Funds
to the Statement of Net Position
June 30, 2015

Exhibit D

Total fund balances of governmental funds	\$1,351,629
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	9,580,501
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Other long-term assets are not available to pay current period expenditures and, therefore, are recognized as deferred inflows of resources in the governmental funds.	311,362
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Accrued interest payable on long-term liabilities is not due and payable in the current year and, therefore, is not reported as a liability in the governmental funds.	(83,405)
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Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:

Deferred outflows of resources	\$ 528,503	
Deferred inflows of resources	<u>(977,701)</u>	(449,198)

The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in the governmental activities in the Statement of Net Position.	57,089
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Long-term liabilities, including bonds and notes payable, compensated absences, termination benefits, other postemployment benefits payable and net pension liability, are not due and payable in the current year and, therefore, are not reported in the governmental funds.	<u>(8,503,365)</u>
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Net position of governmental activities	<u>\$2,264,613</u>
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HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

Exhibit E

		Capital Projects			
		Statewide		Nonmajor	
Revenues	General	Sales, Services and Use Tax	Debt Service	Governmental Funds	Total
Local sources					
Local tax	\$3,343,660	\$ -	\$ 247,827	\$ 669,008	\$ 4,260,495
Tuition	647,414	-	-	-	647,414
Other	79,908	117,440	6	138,905	336,259
State sources	3,747,891	615,818	76	218	4,364,003
Federal sources	187,375	-	-	-	187,375
Total revenues	<u>8,006,248</u>	<u>733,258</u>	<u>247,909</u>	<u>808,131</u>	<u>9,795,546</u>
Expenditures					
Current					
Instruction					
Regular	3,328,801	-	-	-	3,328,801
Special	1,146,067	-	-	-	1,146,067
Other	861,445	-	-	120,486	981,931
	<u>5,336,313</u>	<u>-</u>	<u>-</u>	<u>120,486</u>	<u>5,456,799</u>
Support services					
Student	184,576	-	-	-	184,576
Instructional staff	209,454	-	-	-	209,454
Administration	928,276	216,167	-	159,175	1,303,618
Operation and maintenance of plant	643,207	27,029	-	143,499	813,735
Transportation	382,919	118,106	-	15,510	516,535
	<u>2,348,432</u>	<u>361,302</u>	<u>-</u>	<u>318,184</u>	<u>3,027,918</u>
Non-instructional programs	-	-	-	685	685
Other expenditures					
Facilities acquisition	-	82,947	-	146,691	229,638
Long-term debt					
Principal	-	-	480,000	-	480,000
Interest and fiscal charges	-	-	176,710	-	176,710
AEA flowthrough	266,174	-	-	-	266,174
	<u>266,174</u>	<u>82,947</u>	<u>656,710</u>	<u>146,691</u>	<u>1,152,522</u>
Total expenditures	<u>7,950,919</u>	<u>444,249</u>	<u>656,710</u>	<u>586,046</u>	<u>9,637,924</u>
Excess (deficiency) of revenues over (under) expenditures	<u>55,329</u>	<u>289,009</u>	<u>(408,801)</u>	<u>222,085</u>	<u>157,622</u>
Other financing sources (uses)					
Transfers in	-	-	416,485	-	416,485
Transfers (out)	-	(303,835)	-	(112,650)	(416,485)
Total other financing sources (uses)	-	(303,835)	416,485	(112,650)	-
Change in fund balances	55,329	(14,826)	7,684	109,435	157,622
Fund balance, beginning of year	343,412	753,233	47,235	50,127	1,194,007
Fund balance, end of year	<u>\$ 398,741</u>	<u>\$ 738,407</u>	<u>\$ 54,919</u>	<u>\$ 159,562</u>	<u>\$ 1,351,629</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2015

Exhibit F

Change in fund balances - total governmental funds \$ 157,622

**Amounts reported for governmental activities in the Statement of Activities
are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are not reported in the Statement of Activities and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures and depreciation expense for the current year are as follows:

Expenditures for capital assets	\$517,028	
Depreciation expense	(540,318)	(23,290)

Certain revenues not collected for several months after year-end are not considered available revenue and are recognized as deferred inflows of resources in the governmental funds.	9,335
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The Internal Service Fund is used by the District to charge the costs of the flex-benefit plan to individual funds. The change in net position of the Internal Service Fund is reported with governmental activities.	16,736
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Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	480,000
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The current year District employer share of IPERS contributions are reported as expenditures in the governmental funds, but are reported as a deferred outflow of resources in the Statement of Net Position.	400,267
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Termination benefits	(46,797)	
Compensated absences	542	
Pension expense	(188,899)	
Other postemployment benefits	(294,540)	(529,694)

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the governmental funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	4,449
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Change in net position of governmental activities \$ 515,425

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Net Position
Proprietary Funds
June 30, 2015

Exhibit G

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>	Governmental <u>Activities</u> Internal <u>Service</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 66,318	\$ 57,089
Due from other governments	289	-
Inventories	9,031	-
Total current assets	<u>75,638</u>	<u>57,089</u>
Noncurrent assets		
Capital assets, net of accumulated depreciation	36,971	-
Total assets	<u>112,609</u>	<u>57,089</u>
Deferred Outflows of Resources		
Pension related deferred outflows	<u>14,744</u>	<u>-</u>
Liabilities		
Current liabilities		
Salaries and benefits payable	16,655	-
Unearned revenue	4,734	-
Due to other fund	8,992	-
Total current liabilities	30,381	-
Noncurrent liabilities		
Net pension liability	73,037	-
Total liabilities	<u>103,418</u>	<u>-</u>
Deferred Inflows of Resources		
Pension related deferred inflows	<u>28,218</u>	<u>-</u>
Net Position		
Investment in capital assets	36,971	-
Unrestricted	(41,254)	57,089
Total net position	<u>\$ (4,283)</u>	<u>\$ 57,089</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2015

Exhibit H

	Business Type <u>Activities</u> Nonmajor <u>Enterprise</u>	Governmental <u>Activity</u> Internal <u>Service</u>
Operating revenue		
Local sources		
Charges for service	\$212,716	\$ 86,078
Operating expenses		
Support services		
Administration		
Salaries	9,247	14
Benefits	1,490	15,815
Total support services	<u>10,737</u>	<u>15,829</u>
Non-instructional programs		
Food service operations	328,028	-
Preschool operations	13,705	-
Other enterprise operations	-	53,513
Total non-instructional programs	<u>341,733</u>	<u>53,513</u>
Total operating expenses	<u>352,470</u>	<u>69,342</u>
Operating income (loss)	<u>(139,754)</u>	<u>16,736</u>
Non-operating revenue		
Interest income	9	-
State sources	2,874	-
Federal sources	156,919	-
Total non-operating revenue	<u>159,802</u>	<u>-</u>
Increase in net position	20,048	16,736
Net position beginning of year, as restated	<u>(24,331)</u>	<u>40,353</u>
Net position end of year	<u>\$ (4,283)</u>	<u>\$ 57,089</u>

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT

Exhibit I

Statement of Cash Flows Proprietary Funds For the Year Ended June 30, 2015

	Business Type Activities Nonmajor Enterprise	Governmental Activity Internal Service
Cash flows from operating activities		
Cash received from sale of services	\$ 211,997	\$ 86,078
Cash payments to employees for services	(165,250)	-
Cash payments to suppliers for goods and services	(149,954)	(71,501)
Net cash provided by (used in) operating activities	(103,207)	14,577
Cash flows from non-capital financing activities		
State grants received	2,874	-
Federal grants received	113,952	-
Net cash provided by non-capital financing activities	116,826	-
Cash flows from capital and related financing activities		
Acquisition of capital assets	(28,150)	-
Cash flows from investing activities		
Interest on investments	9	-
Net increase (decrease) in cash and cash equivalents	(14,522)	14,577
Cash and cash equivalents, beginning of year	80,840	42,512
Cash and cash equivalents, end of year	\$ 66,318	\$ 57,089

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities

Operating income (loss)	\$ (139,754)	\$ 16,736
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities		
Depreciation	7,654	-
Commodities used	42,678	-
(Increase) in inventory	(4,106)	-
(Decrease) in accounts payable	-	(2,159)
(Decrease) in unearned revenue	(719)	-
(Decrease) in salaries and benefits payable	(3,615)	-
(Decrease) in net pension liability	(29,580)	-
(Increase) in deferred outflows of resources	(3,983)	-
Increase in deferred inflows of resources	28,218	-
Net cash provided by (used in) operating activities	\$ (103,207)	\$ 14,577

Non-cash investing, capital and financing activities:

During the year ended June 30, 2015 the District received \$42,678 of federal commodities.

See notes to financial statements.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2015

Note 1. Summary of Significant Accounting Policies

The Highland Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The District also operates a preschool for preschool aged children in the communities served. The geographic area served includes the Cities of Ainsworth and Riverside, Iowa, and the predominant agricultural territory in Louisa, Johnson and Washington Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Highland Community School District has included all funds, organizations, agencies, boards, commissions, and authorities. The District has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the District. The Highland Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the County Assessor's Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities report information on all of the activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Position presents the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Net position is reported in the following categories:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt attributed to the acquisition, construction, or improvement of those assets.

Restricted net position results when constraints placed on net position use are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest, restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, including instructional, support and other costs.

The Capital Projects - Statewide Sales, Services and Use Tax Fund is used to account for the collection of the 1% statewide sales and service tax to be expended for school infrastructure purposes.

The Debt Service Fund is utilized to account for property tax and other revenues to be used for the payment of interest and principal on the District's general long-term debt.

The District reports no major proprietary funds. However, the District reports two nonmajor enterprise funds. The School Nutrition Fund, which is used to account for the food service operations of the District and the Preschool Fund, which is used to account for the preschool operations of the District. The District also has an internal service fund which is utilized to account for employee health insurance benefits.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, termination benefits and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under the terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the District's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's Enterprise Funds is charges to customers for sales and services. Operating expenses for Enterprise Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Cash Equivalents and Pooled Investments - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

The Iowa Schools Joint Investment Trust is a common law trust established under Iowa law and is administered by an appointed investment management company. The fair value of the position in the trust is the same as the value of the shares.

For purposes of the Statement of Cash Flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable - Property tax in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current year and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½ % per month penalty for delinquent payments; is based on January 1, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2014.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property and furniture and equipment, reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Position. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

<u>Asset Class</u>	<u>Amount</u>
Land	\$ 1,500
Buildings	\$ 1,500
Improvements other than buildings	\$ 1,500
Intangibles	\$25,000
Furniture and equipment:	
School Nutrition Fund equipment	\$ 500
Other furniture and equipment	\$ 1,500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50 years
Improvements other than buildings	20 years
Intangibles	5-10 years
Buses	7 years
Other on-road vehicles	4 years
Furniture and equipment	5-12 years

Deferred Outflows of Resources - Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

Salaries and Benefits Payable - Payroll and related expenditures for teachers with annual contracts corresponding to the current school year, which are payable in July and August, have been accrued as liabilities.

Unearned Revenue - Unearned revenues are monies collected for lunches that have not yet been served. The lunch account balances with either be reimbursed to the student or be used as meals are served to the student.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2015. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Termination Benefits - District employees meeting certain requirements are eligible for early retirement. A liability is recorded when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The early retirement liability has been computed based on rates of pay in effect at June 30, 2015. The early retirement liability attributable to the governmental activities would be paid primarily by the General and Management Funds. This liability has been computed based on amounts established in the District's adopted board policy regarding early retirement benefits.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources - Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax and income surtax receivables not collected within sixty days after year end as well as amounts paid for meals not yet served.

Deferred inflows of resources in the Statement of Net Position consists of succeeding year property tax receivables that will not be recognized until the year for which it is levied and the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

Fund Balances - In the governmental fund financial statements, fund balances are classified as follows:

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts which can be used only for specific purposes determined pursuant to constraints formally imposed by the Board of Education through resolution approved prior to year end. Those committed amounts cannot be used for any other purpose unless the Board of Education removes or changes the specified use by taking the same action it employed to commit those amounts.

Unassigned - All amounts not included in the preceding classifications.

Net Position - In the district-wide Statement of Net Position, net position is reported as restricted when constraints placed on net position use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Net position restricted through enabling legislation includes \$16,887 for physical plant and equipment, \$91,682 for student activities and \$738,407 for school infrastructure.

E. Budgeting and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2015, expenditures in the non-instructional programs function exceeded the amount budgeted.

F. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Note 2. Cash, Cash Equivalents and Pooled Investments

The District's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2015, the District had investments in the Iowa Schools Joint Investment Trust Diversified Portfolio which are valued at an amortized cost of \$1,379,567 pursuant to Rule 2a-7 under the Investment Company Act of 1940. Credit risk. The investment in the Iowa Schools

Joint Investment Trust was rated AAAM by Standard & Poor's Financial Services.

Note 3. Due From and Due To Other Funds

The details of interfund receivables and payables at June 30, 2015 are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
	Non-major Enterprise	
General	Preschool	\$ 8,992

The Preschool Fund owes General Fund for shared expenses. This balance will be repaid during the year ending June 30, 2016.

Note 4. Interfund Transfers

The details of interfund transfers for the year ended June 30, 2015 are as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
	Nonmajor Capital Projects	
Debt service	Physical Plant and Equipment Levy	\$ 112,650
	Major Capital Projects	
Debt service	Statewide Sales, Services and Use Tax	<u>303,835</u>
Total		<u>\$ 416,485</u>

These transfers move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources. The transfers from the Physical Plant and Equipment Levy Fund and the Statewide Sales, Services and Use Tax Fund to the Debt Service Fund are to make principal and interest payments on long-term debt.

Note 5. Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by an annual issuance of anticipatory warrants. The warrant sizing of each school corporation is based on a projection of cash flow needs during the fiscal year. Bankers Trust Co. NA is the trustee for the program.

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. The District must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. The Series 2014-2015 ONE included taxable warrants only. The interest rates

on the Series 2014-2015 ONE warrants are variable rates, calculated daily, based on the one-month LIBOR rate plus 105 basis points. The LIBOR rate at June 30, 2015 was 0.1524%. A summary of the District's ISCAP activity for the year ended June 30, 2015 is as follows:

<u>Series</u>	<u>Warrant Date</u>	<u>Final Warrant Maturity</u>	<u>Balance, Beginning of Year</u>	<u>Advances Received</u>	<u>Advances Repaid</u>	<u>Balance, End of Year</u>
2014-15 ONE	6-27-14	12-1-15	\$ -	\$ 250,000	\$ 250,000	\$ -

During the year ended June 30, 2015, the District paid \$824 of interest on the ISCAP warrants.

Note 6. Capital Assets

Capital assets activity for the year ended June 30, 2015 was as follows:

	<u>Balance, Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance, End of Year</u>
<u>Governmental activities</u>				
Capital assets not being depreciated:				
Land	\$ 226,612	\$ -	\$ -	\$ 226,612
Capital assets being depreciated:				
Buildings and improvements	9,826,916	123,939	-	9,950,855
Improvements other than buildings	2,250,393	81,283	-	2,331,676
Furniture and equipment	<u>2,289,981</u>	<u>311,806</u>	<u>(24,934)</u>	<u>2,576,853</u>
Total capital assets being depreciated	<u>14,367,290</u>	<u>517,028</u>	<u>(24,934)</u>	<u>14,859,384</u>
Less accumulated depreciation for:				
Buildings and improvements	2,719,252	186,478	-	2,905,730
Improvements other than buildings	532,732	111,563	-	644,295
Furniture and equipment	<u>1,738,127</u>	<u>242,277</u>	<u>(24,934)</u>	<u>1,955,470</u>
Total accumulated depreciation	<u>4,990,111</u>	<u>540,318</u>	<u>(24,934)</u>	<u>5,505,495</u>
Total capital assets being depreciated, net	<u>9,377,179</u>	<u>(23,290)</u>	<u>-</u>	<u>9,353,889</u>
Governmental activities capital assets, net	<u>\$ 9,603,791</u>	<u>\$ (23,290)</u>	<u>\$ -</u>	<u>\$ 9,580,501</u>
<u>Business-type activities</u>				
Furniture and equipment	\$ 99,298	\$ 28,150	\$ -	\$ 127,448
Less accumulated depreciation	<u>82,823</u>	<u>7,654</u>	<u>-</u>	<u>90,477</u>
Business type activities capital assets, net	<u>\$ 16,475</u>	<u>\$ 20,496</u>	<u>\$ -</u>	<u>\$ 36,971</u>

Depreciation expense was charged to the following functions:

Governmental activities

Instruction	
Regular	\$ 10,072
Special	4,670
Other	7,397
Support services	
Instructional staff	42,109
Administration	55,283
Operation and maintenance of plant	11,630
Transportation	<u>93,656</u>
	224,817
Unallocated depreciation	<u>315,501</u>
Total governmental activities depreciation expense	<u>\$ 540,318</u>

Business type activities

Food services	<u>\$ 7,654</u>
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Note 7. Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2015 are summarized as follows:

	Balance, Beginning of Year	Additions	Reductions	Balance, End of Year	Due Within One Year
Governmental activities					
General obligation bonds	\$ 925,000	\$ -	\$ (230,000)	\$ 695,000	\$ 230,000
Revenue bonds	3,075,000	-	(150,000)	2,925,000	155,000
Capital loan notes	800,000	-	(100,000)	700,000	100,000
Compensated absences	14,103	19,707	(20,249)	13,561	-
Termination benefits	91,455	79,608	(32,811)	138,252	40,002
Net pension liability	3,601,943	-	(1,038,297)	2,563,646	
Net OPEB liability	<u>1,173,366</u>	<u>326,032</u>	<u>(31,492)</u>	<u>1,467,906</u>	<u>-</u>
Totals	<u>\$ 9,680,867</u>	<u>\$ 425,347</u>	<u>\$ (1,602,849)</u>	<u>\$ 8,503,365</u>	<u>\$ 525,002</u>
Business type activities					
Net pension liability	<u>\$ 102,617</u>	<u>\$ -</u>	<u>\$ (29,580)</u>	<u>\$ 73,037</u>	<u>\$ -</u>

Interest costs incurred and charged to expense on all long-term debt was \$172,261 for the year ended June 30, 2015. During the year ended June 30, 2015, the District made principal payments on total long-term debt of \$480,000.

Revenue Bonds

Details of the District's June 30, 2015 statewide sales, services and use tax revenue bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of June 1, 2009			
	Interest Rates	Interest	Principal	Total
2016	4.25%	\$ 147,460	\$ 155,000	\$ 302,460
2017	4.25%	140,872	160,000	300,872
2018	4.25%	134,072	170,000	304,072
2019	4.50%	126,847	175,000	301,847
2020	4.75%	118,972	180,000	298,972
2021-2025	5.0-5.3%	450,432	1,050,000	1,500,432
2026-2029	5.4-5.45%	144,327	1,035,000	1,179,327
Totals		<u>\$ 1,262,982</u>	<u>\$ 2,925,000</u>	<u>\$ 4,187,982</u>

The District has pledged future statewide sales, services and use tax revenues to repay the \$2,925,000 of bonds issued in June 2009. The bonds were issued to finance remodeling projects at the JH/HS building and elementary. The bonds are payable solely from the proceeds of the statewide sales, services and use tax revenues received by the District and are payable through 2029. The bonds are not a general obligation of the District. However, the debt is subject to the constitutional debt limitation of the District. Annual principal and interest payments on the bonds are expected to require approximately 75% of the statewide sales and services tax revenues. The total principal and interest remaining to be paid on the bonds is \$4,187,982. For the current year, \$150,000 of principal and \$153,835 of interest was paid on the bonds and statewide sales, services and use tax revenues were \$615,818.

The resolution providing for the issuance of the statewide sales, services and use tax revenue bonds includes the following provisions:

- \$305,947 of the proceeds from the issuance of the revenue bonds shall be deposited to a reserve account to be used solely for the purpose of paying principal and interest on the bonds if insufficient money is available in the sinking account. The balance of the proceeds shall be deposited to the project account.
- All proceeds from the statewide sales and services tax shall be placed in a revenue account.
- Monies in the revenue account shall be disbursed to make deposits into a sinking account to pay the principal and interest requirements of the revenue bonds for the fiscal year.
- Any monies remaining in the revenue account after the required transfer to the sinking account may be transferred to the project account to be used for any lawful purpose.

The District complied with all the revenue bond provisions during the year ended June 30, 2015.

Refunded General Obligation Bonds

On April 25, 2012, the District issued \$1,340,000 of general obligation bonds to refund the general obligation bond issues of March 9, 1998 and November 1, 2005. On May 1, 2012 the remaining balances of \$100,000 of the 1998 issue and \$1,350,000 of the 2005 issue were called and paid from the proceeds of the refunding general obligation bonds. These amounts are considered to be extinguished and, therefore, excluded from the long-term debt of the District at June 30, 2014. This current refunding was undertaken to reduce total debt service payments over the next five years by \$107,260 and resulted in an economic gain of \$111,370.

Details of the District's June 30, 2015 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of April 25, 2012			
	Interest Rates	Interest	Principal	Total
2016	0.95%	\$ 8,000	\$ 230,000	\$ 238,000
2017	1.20%	5,815	230,000	235,815
2018	1.30%	3,055	235,000	238,055
Totals		<u>\$ 16,870</u>	<u>\$ 695,000</u>	<u>\$ 711,870</u>

Capital Loan Notes

On May 1, 2012, the District issued capital loan notes for a remodeling project. The notes bear interest at .5% to 2.3% and are payable from the Physical Plant and Equipment Levy Fund. Details of the District's capital loan notes at June 30, 2015 are as follows:

Year Ending June 30,	Interest Rates	Principal	Interest	Total
2016	1.00%	\$ 100,000	\$ 11,350	\$ 111,350
2017	1.15%	100,000	10,350	110,350
2018	1.30%	100,000	9,200	109,200
2019	1.60%	100,000	7,900	107,900
2020	1.90%	100,000	6,300	106,300
2021-2022	2.1-2.3%	200,000	6,700	206,700
Totals		<u>\$ 700,000</u>	<u>\$ 51,800</u>	<u>\$ 751,800</u>

Compensated Absences

District employees accumulate vacation hours for subsequent use or for payment upon termination, retirement, or death. The District's maximum liability for accumulated compensated absences was \$13,561 at June 30, 2015. No individuals had requested payment for unused vacation hours as of June 30, 2015.

Termination Benefits

Certified District employees who have 10 years of continuous service at Highland Community School District and are age 55 or older are eligible for early retirement pay. The early retirement incentive for each eligible certified employee approved by the Board shall be the cost to the District for providing continuing coverage under the District's group insurance plan until the certified employee becomes eligible for Medicare. The coverage shall constitute the employee's single health and dental coverage applicable at the time of separation. The certified employee must meet the requirements of the insurer to continue coverage under this plan.

The Board has complete discretion to offer or not offer an early retirement plan for certified employees on an annual basis. The Board may discontinue the District's early retirement plan at any time.

The employee must notify the Board by March fifteenth to receive the early retirement benefits. At June 30, 2015, the maximum accumulated retirement benefits of the District was \$138,252 and seven individuals had requested early retirement and were receiving the benefit. Early retirement expenditures for the year ended June 30, 2015 totaled \$32,811.

Note 8. Pension Plan

Plan Description - IPERS membership is mandatory for employees of the District, except for those covered by another retirement system. Employees of the District are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65. Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions – Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by IPERS Investment Board. The actuarial Contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the District contributed 8.93 percent for a total rate of 14.88 percent.

The District's contributions to IPERS for the year ended June 30, 2015 were \$409,766.

Net Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2015, the District reported a liability of \$2,636,683 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the District's collective proportion was .0651507284296 percent, which was an increase of .00027767409 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the District recognized pension expense of \$206,023. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of

resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28,656	\$ -
Changes of assumptions	116,363	-
Net difference between projected and actual earnings on pension plan investments	-	1,005,919
Changes in proportion and differences between District contributions and proportionate share of contributions	(12,766)	-
District contributions subsequent to the measurement date	<u>410,994</u>	<u>-</u>
Total	<u>\$ 543,247</u>	<u>\$ 1,005,919</u>

\$410,994, reported as deferred outflows of resources related to pensions resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	
2016	\$ (124,553)
2017	(124,553)
2018	(124,553)
2019	(124,553)
2020	<u>35,540</u>
Total	<u>\$ (462,672)</u>

There were no non-employer contributing entities at IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of inflation (effective June 30, 2014)	3.00 percent
Rates of salary increase (effective June 30, 2014)	4.00 percent, average, including inflation
Long-term investment rate of return (effective June 30, 1996)	7.50 percent per annum, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

Discount Rate - The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the District will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1- percentage-point lower (6.5 percent) or 1-percentage point higher (8.5 percent) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
District's proportionate share of the net pension liability	\$4,981,939	\$2,636,683	\$657,044

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPER's website at www.ipers.org.

Payables to the Pension Plan - At June 30, 2015, the District reported no payables to the defined benefit pension plan for legally required employer or employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 9. Other Postemployment Benefits (OPEB)

Plan Description - The District operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees, and their spouses. There are 200 active and 12 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit rate subsidy and an OPEB liability.

Funding Policy - The contribution requirements of the plan members are established and may be amended by the District. The District currently finances the retiree benefit plan on a pay-as-you-go basis.

Annual OPEB Cost and Net OPEB Obligation - The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the District's annual OPEB cost for the year ended June 30, 2015, the amount actually contributed to the plan and changes in the District's net OPEB obligation:

Annual required contribution	\$ 372,030
Interest on net OPEB obligation	29,334
Adjustment to annual required contribution	<u>(75,332)</u>
Annual OPEB cost	326,032
Contributions made	<u>(31,492)</u>
Increase in net OPEB obligation	294,540
Net OPEB obligation beginning of year	<u>1,173,366</u>
Net OPEB obligation end of year	<u>\$ 1,467,906</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2009. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions

for the year ended June 30, 2015.

For the year ended June 30, 2015, the District contributed \$31,492 to the medical plan. Plan members eligible for benefits contributed nothing of the premium costs for the OPEB obligation.

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2015 are summarized as follows:

<u>Year Ended June 30,</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2010	\$ 254,377	20.5%	\$ 204,677
2011	\$ 258,406	19.5%	\$ 409,993
2012	\$ 283,104	21.5%	\$ 632,321
2013	\$ 311,867	17.1%	\$ 907,021
2014	\$ 305,897	12.9%	\$ 1,173,366
2015	\$ 326,032	9.7%	\$ 1,467,906

Funded Status and Funding Progress - As of July 1, 2012, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$1,880,886, with no actuarial value of assets, resulting in an unfunded actuarial accrued liability (UAAL) of approximately \$1,880,886. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$4.5 million and the ratio of UAAL to covered payroll was 41.5%. As of June 30, 2015, there were no trust fund assets.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress for the Retiree Health Plan, presented as Required Supplementary Information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

As of July 1, 2012 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 2.5% discount rate based on the District's funding policy.

The projected annual medical trend rate is 6%. The ultimate medical trend rate is 6%. The medical trend rate is reduced 0.5% each year until reaching the 6% ultimate trend rate. An inflation rate of 0% is assumed for the purpose of this computation.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the retirement probabilities from the IPERS Actuarial Report as of June 30, 2011 and applying the termination factors used in the IPERS Actuarial Report as of June 30, 2011. The UAAL is being amortized as a level percentage of projected payroll expense on an open basis over 30 years.

Note 10. Risk Management

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11. Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media, and educational services provided through the Area Education Agency. The District's actual amount for this purpose totaled \$266,174 for the year ended June 30, 2015 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

Note 12. Contingencies

Grant Funding - The District participates in a number of federal and state programs that are fully or partially funded by grants received from other governmental units. Expenditures financed by grants were subjected to local audit but still remain open to audit by the appropriate grantor government. If expenditures are disallowed by the grantor government due to noncompliance with grant program regulations, the District may be required to reimburse the grantor government. As of June 30, 2015, significant amounts of grant expenditures have not been audited by granting authorities but the District believes that disallowed expenditures, if any, based on subsequent audits will not have a material effect on any of the individual governmental funds or the overall financial position of the District.

Note 13. Deficit Balances

The District had a \$4,045,389 negative unrestricted net position in the governmental activities and negative unrestricted net position and total net position in the business type activities of \$41,254 and \$4,283, respectively, at June 30, 2015. In addition, the Enterprise Fund-

School Nutrition and Enterprise Fund-Preschool Fund had unreserved, undesignated fund deficits of \$27,681 and \$13,573, respectively at June 30, 2015.

Note 14. Categorical Funding

The District's restricted fund balance for categorical funding at June 30, 2015 is comprised of the following:

Program

Four-year-old preschool state aid	\$ 54,016
Teacher salary supplement	42,705
Early literacy grant	9,446
Educator quality, professional development for model core curriculum	42,486
Educator quality, professional development	<u>53,872</u>
	<u>\$ 202,525</u>

Note 15. Self-funded Health Insurance

During the year ended June 30, 2015, the District began utilizing a partial self-funded/partial fully funded plan. This is a combination of a low self-funded single of \$1500/\$4500 and family \$3000/\$9000 and a high fully funded plan through Wellmark of single \$2,500/\$5,000 and family \$5,000/\$10,000. Payments to Wellmark are made for its premium and deposits into the Internal Service Fund are made monthly for the self-funded portion. The self-fund plan (Internal Service Fund) deposits and the independent administrator funds/pays for the claim exposure between the two or \$1,000 for single and \$2,000 for family. After the total exposure has been maximized, the fully-funded carrier pays 100%. The District estimates that 25% of those covered will reach full maximum exposure.

At June 30, 2015, the District had accumulated an excess of \$57,089 in its Internal Service Fund to cover employee health care claims. Also, the District continues to fund this plan by depositing premiums into the account on a monthly basis. The District's deposits into this fund have exceeded claims paid from the fund during the years ended June 30, 2014 and 2015. All submitted claims had been paid or accrued at June 30, 2015. The District does not expect claims to exceed monies available in the fund during the year ending June 30, 2015. The District is contingently liable for any claims in excess of funds available at June 30, 2015.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported (IBNR) which represent estimates of the eventual loss on claims arising prior to year-end. Claims liabilities are reported in the financial statements in other current liabilities. Changes in the balances of claims liabilities during the past two fiscal years are as follows:

	Year Ended June 30,	
	2015	2014
Unpaid claims, beginning of year	\$ 1,696	\$ -
Current year claims and changes in estimates	69,342	87,751
Claim payments	<u>(71,038)</u>	<u>(86,055)</u>
Unpaid claims, end of year	<u>\$ -</u>	<u>\$ 1,696</u>

Note 16. Accounting Change/Restatement

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27 was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date. Beginning net position for governmental and business type activities were restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

	Governmental Activities	Business type Activities
Net position June 30, 2014, as previously reported	\$ 4,973,400	\$ 67,525
Net pension liability at June 30, 2014	(3,601,943)	(102,617)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	<u>377,731</u>	<u>10,761</u>
Net position July 1, 2014, as restated	<u>\$ 1,749,188</u>	<u>\$ (24,331)</u>

Required Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT

Budgetary Comparison Schedule of Revenues, Expenditures/Expenses and Changes in Balances - Budget and Actual

All Governmental Funds and Enterprise Funds

Required Supplementary Information

For the Year Ended June 30, 2015

	Governmental Funds <u>Actual</u>	Enterprise Funds <u>Actual</u>	Total <u>Actual</u>	Budgeted Amounts <u>Original</u> <u>Final</u>	Final to Actual <u>Variance</u>
Revenues					
Local sources	\$ 5,244,168	\$ 212,725	\$ 5,456,893	\$ 5,837,311	\$ (380,418)
State sources	4,364,003	2,874	4,366,877	3,974,902	391,975
Federal sources	187,375	156,919	344,294	298,886	45,408
Total revenues	<u>9,795,546</u>	<u>372,518</u>	<u>10,168,064</u>	<u>10,111,099</u>	<u>56,965</u>
Expenditures/Expenses					
Current					
Instruction	5,456,799	-	5,456,799	5,254,046	543,201
Support services	3,027,918	10,737	3,038,655	2,797,943	211,345
Non-instructional programs	685	341,733	342,418	310,000	(32,418)
Other expenditures	1,152,522	-	1,152,522	1,234,257	81,735
Total expenditures/expenses	<u>9,637,924</u>	<u>352,470</u>	<u>9,990,394</u>	<u>9,596,246</u>	<u>803,863</u>
Net change in fund balance	157,622	20,048	177,670	514,853	860,828
Balance, beginning of year, as restated	1,194,007	(24,331)	1,169,676	1,151,137	18,539
Balance, end of year	<u>\$ 1,351,629</u>	<u>\$ (4,283)</u>	<u>\$ 1,347,346</u>	<u>\$ 1,665,990</u>	<u>\$ 879,367</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Budgetary Reporting
For the Year Ended June 30, 2015

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures / expenses known as functions, not by fund. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents function expenditures or expenses by fund, the legal level of control is at the aggregated function level, not by fund. The Code of Iowa also provides District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment, increasing budgeting expenditures by \$1,198,011.

During the year ended June 30, 2015, expenditures in the non-instructional programs function exceeded the amount budgeted.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
Iowa Public Employees' Retirement System
Last Fiscal Year*
Required Supplementary Information

	<u>2015</u>
District's proportion of the net pension liability	0.0651507284296%
District's proportionate share of the net pension liability	\$ 2,636,683
District's covered-employee payroll	\$ 4,588,643
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	57.46%
Plan fiduciary net position as a percetnage of the total pension liability	87.61%

*The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of District Contributions
Iowa Public Employees' Retirement System
Last 10 Fiscal Years
Required Supplementary Information

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Statutorily required contributions	\$ 409,766	\$ 388,058	\$ 366,887	\$ 347,580	\$ 289,577	\$ 289,373	\$ 254,546	\$ 213,828	\$ 189,057	\$ 175,666
Contributions in relation to the statutorily required contribution	<u>(409,766)</u>	<u>(388,058)</u>	<u>(366,887)</u>	<u>(347,580)</u>	<u>(289,577)</u>	<u>(289,373)</u>	<u>(254,546)</u>	<u>(213,828)</u>	<u>(189,057)</u>	<u>(175,666)</u>
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$4,588,645	\$4,345,554	\$4,231,684	\$4,307,063	\$4,166,576	\$4,351,474	\$4,008,598	\$3,534,347	\$3,287,948	\$3,055,061
Contributions as a percentage of covered-employee payroll	8.93%	8.93%	8.67%	8.07%	6.95%	6.65%	6.35%	6.05%	5.75%	5.75%

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Pension Liability
For the Year Ended June 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent.
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates

HIGHLAND COMMUNITY SCHOOL DISTRICT
Notes to Required Supplementary Information – Pension Liability
For the Year Ended June 30, 2015

- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation to the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Funding Progress for the
Retiree Health Plan
Required Supplementary Information

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2010	July 1, 2009	\$ -	\$ 1,583,071	\$ 1,583,071	\$ -	\$ 4,349,462	36.4%
2011	July 1, 2009	-	1,583,071	1,583,071	-	4,221,168	37.5%
2012	July 1, 2009	-	1,583,071	1,583,071	-	4,152,961	38.1%
2013	July 1, 2012	-	1,905,170	1,905,170	-	4,273,444	44.6%
2014	July 1, 2012	-	1,921,597	1,921,597	-	4,354,575	44.1%
2015	July 1, 2012	-	1,880,886	1,880,886	-	4,532,322	41.5%

See Note 9 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB cost, net OPEB obligation, funded status and funding progress.

Supplementary Information

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2015

Schedule 1

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	<u>Student Activity</u>	<u>Management Levy</u>	<u>Physical Plant and Equipment Levy</u>	<u>Total</u>
Assets				
Cash, cash equivalents and pooled investments	\$ 91,682	\$ 49,344	\$ 32,905	\$ 173,931
Receivables				
Property tax				
Delinquent	-	2,334	2,371	4,705
Succeeding year	-	250,000	350,609	600,609
Total assets	<u>\$ 91,682</u>	<u>\$ 301,678</u>	<u>\$ 385,885</u>	<u>\$ 779,245</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities				
Accounts payable	<u>\$ -</u>	<u>\$ 685</u>	<u>\$ 18,389</u>	<u>\$ 19,074</u>
Deferred inflows of resources				
Unavailable revenue				
Succeeding year property tax	<u>-</u>	<u>250,000</u>	<u>350,609</u>	<u>600,609</u>
Fund balances				
Restricted for				
Student activities	91,682	-	-	91,682
Management levy purposes	-	50,993	-	50,993
Physical plant and equipment	-	-	16,887	16,887
Total fund balances	<u>91,682</u>	<u>50,993</u>	<u>16,887</u>	<u>159,562</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 91,682</u>	<u>\$ 301,678</u>	<u>\$ 385,885</u>	<u>\$ 779,245</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2015

Schedule 2

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	<u>Student Activity</u>	<u>Management Levy</u>	<u>Physical Plant and Equipment Levy</u>	<u>Total</u>
Revenues				
Local sources				
Local taxes	\$ -	\$ 310,760	\$358,248	\$ 669,008
Other	132,013	6,888	4	138,905
State sources	-	108	110	218
Total revenues	<u>132,013</u>	<u>317,756</u>	<u>358,362</u>	<u>808,131</u>
Expenditures				
Current				
Instruction				
Other	120,486	-	-	120,486
Total instruction	<u>120,486</u>	<u>-</u>	<u>-</u>	<u>120,486</u>
Support services				
Administration	-	67,482	91,693	159,175
Operation and maintenance of plant	-	139,471	4,028	143,499
Transportation	-	15,022	488	15,510
Total support services	<u>-</u>	<u>221,975</u>	<u>96,209</u>	<u>318,184</u>
Non-instructional programs	<u>-</u>	<u>685</u>	<u>-</u>	<u>685</u>
Other expenditures				
Facilities acquisition	-	-	146,691	146,691
Total expenditures	<u>120,486</u>	<u>222,660</u>	<u>242,900</u>	<u>586,046</u>
Excess of revenues over expenditures	11,527	95,096	115,462	222,085
Other financing (uses)				
Transfers (out)	<u>-</u>	<u>-</u>	<u>(112,650)</u>	<u>(112,650)</u>
Net change in fund balances	11,527	95,096	2,812	109,435
Fund balances, beginning of year	80,155	(44,103)	14,075	50,127
Fund balances, end of year	<u>\$91,682</u>	<u>\$ 50,993</u>	<u>\$ 16,887</u>	<u>\$ 159,562</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Statement of Net Position
Nonmajor Enterprise Funds
June 30, 2015

Schedule 3

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Assets			
Current assets			
Cash and cash equivalents	\$ 58,655	\$ 7,663	\$ 66,318
Due from other governments	289	-	289
Inventories	9,031	-	9,031
Total current assets	<u>67,975</u>	<u>7,663</u>	<u>75,638</u>
Noncurrent assets			
Capital assets, net of accumulated depreciation	36,971	-	36,971
Total assets	<u>104,946</u>	<u>7,663</u>	<u>112,609</u>
Deferred Outflows of Resources			
Pension related deferred outflows	<u>13,458</u>	<u>1,286</u>	<u>14,744</u>
Liabilities			
Current liabilities			
Salaries and benefits payable	14,823	1,832	16,655
Unearned revenue	4,734	-	4,734
Due to other fund	-	8,992	8,992
Total current liabilities	<u>19,557</u>	<u>10,824</u>	<u>30,381</u>
Noncurrent liabilities			
Net pension liability	<u>64,599</u>	<u>8,438</u>	<u>73,037</u>
Total liabilities	<u>84,156</u>	<u>19,262</u>	<u>103,418</u>
Deferred Inflows of Resources			
Pension related deferred inflows	<u>24,958</u>	<u>3,260</u>	<u>28,218</u>
Net Position			
Investment in capital assets	36,971	-	36,971
Unrestricted	<u>(27,681)</u>	<u>(13,573)</u>	<u>(41,254)</u>
Total net position	<u>\$ 9,290</u>	<u>\$ (13,573)</u>	<u>\$ (4,283)</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Statement of Revenues, Expenses and Changes in Fund Net Position
Nonmajor Enterprise Funds
For the Year Ended June 30, 2015

Schedule 4

	<u>School Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Operating revenue			
Local sources			
Charges for service	\$ 194,531	\$ 18,185	\$ 212,716
Operating expenses			
Support services			
Administration			
Salaries	9,247	-	9,247
Benefits	1,490	-	1,490
Total support services	<u>10,737</u>	<u>-</u>	<u>10,737</u>
Non-instructional programs			
Salaries	112,904	9,421	122,325
Benefits	18,944	4,284	23,228
Purchased services	512	-	512
Supplies	188,014	-	188,014
Depreciation	7,654	-	7,654
	<u>328,028</u>	<u>13,705</u>	<u>341,733</u>
Total operating expenses	<u>338,765</u>	<u>13,705</u>	<u>352,470</u>
Operating income (loss)	<u>(144,234)</u>	<u>4,480</u>	<u>(139,754)</u>
Non-operating revenue			
Interest income	-	9	9
State sources	2,874	-	2,874
Federal sources	156,919	-	156,919
Total non-operating revenue	<u>159,793</u>	<u>9</u>	<u>159,802</u>
Change in net position	15,559	4,489	20,048
Net position beginning of year, as restated	(6,269)	(18,062)	(24,331)
Net position end of year	<u>\$ 9,290</u>	<u>\$(13,573)</u>	<u>\$ (4,283)</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended June 30, 2015

Schedule 5

	School <u>Nutrition</u>	<u>Preschool</u>	<u>Total</u>
Cash flows from operating activities			
Cash received from sale of services	\$ 193,812	\$ 18,185	\$ 211,997
Cash payments to employees for services	(150,425)	(14,825)	(165,250)
Cash payments to suppliers for goods and services	(149,954)	-	(149,954)
Net cash provided by (used in) operating activities	<u>(106,567)</u>	<u>3,360</u>	<u>(103,207)</u>
Cash flows from non-capital financing activities			
State grants received	2,874	-	2,874
Federal grants received	113,952	-	113,952
Net cash provided by non-capital financing activities	<u>116,826</u>	<u>-</u>	<u>116,826</u>
Cash flows from capital and related financing activities			
Acquisition of capital assets	(28,150)	-	(28,150)
Cash flows from investing activities			
Interest on investments	-	9	9
Net increase (decrease) in cash and cash equivalents	(17,891)	3,369	(14,522)
Cash and cash equivalents, beginning of year	76,546	4,294	80,840
Cash and cash equivalents, end of year	<u>\$ 58,655</u>	<u>\$ 7,663</u>	<u>\$ 66,318</u>

Reconciliation of operating income (loss) to net cash provided by (used in) operating activities

Operating income (loss)	\$ (144,234)	\$ 4,480	\$(139,754)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities			
Depreciation	7,654	-	7,654
Commodities used	42,678	-	42,678
(Increase) in inventory	(4,106)	-	(4,106)
(Decrease) in salaries and benefits payable	(2,695)	(920)	(3,615)
(Decrease) in unearned revenue	(719)	-	(719)
(Decrease) in net pension liability	(26,163)	(3,417)	(29,580)
(Increase) in deferred outflows of resources	(3,940)	(43)	(3,983)
Increase in deferred inflows of resources	24,958	3,260	28,218
Net cash provided by (used in) operating activities	<u>\$ (106,567)</u>	<u>\$ 3,360</u>	<u>\$ (103,207)</u>

Non-cash investing, capital and financing activities:

During the year ended June 30, 2015 the District received \$42,678 of federal commodities.

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Changes in Special Revenue Fund, Student Activity Accounts
For the Year Ended June 30, 2015

Schedule 6

Account	Balance, Beginning of Year	Revenues	Expenditures	Balance, End of Year
Vocal	\$ 50	\$ 1,721	\$ 1,192	\$ 579
Instrumental	50	2,197	2,215	32
Pop & concessions	620	4,451	3,955	1,116
Student fundraising	3,231	-	-	3,231
Class of 2021	-	100	-	100
Class of 2020	100	-	-	100
Class of 2019	115	-	-	115
Class of 2018	150	-	-	150
Class of 2017	325	-	-	325
Class of 2016	754	5,895	4,697	1,952
Class of 2015	797	-	248	549
Class of 2014	241	-	-	241
Class of 2013	373	-	-	373
Principal's Account	724	978	750	952
Annual	15	3,929	5,457	(1,513)
Cheerleaders	861	4,756	4,731	886
Drill team	15	5,462	3,264	2,213
National Honor Society	215	450	263	402
Sr high student council	1,656	430	690	1,396
Jr high student council	1,096	566	40	1,622
Drama club	175	406	287	294
Art club	698	-	-	698
Spanish club	237	-	-	237
Athletics	33,815	83,198	79,295	37,718
Riverside fund	12,767	3,402	1,215	14,954
Ainsworth fund	6,315	2,070	1,131	7,254
Middle school fund	5,991	2,766	4,595	4,162
Shooting sports club	6,178	8,566	5,774	8,970
Robotics club	7	270	181	96
High school fund	2,584	400	506	2,478
Totals	<u>\$ 80,155</u>	<u>\$ 132,013</u>	<u>\$ 120,486</u>	<u>\$ 91,682</u>

See accompanying Independent Auditor's Report.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Revenues by Source and Expenditures by Function
All Governmental Funds
For the Last Ten Years

	Modified Accrual Basis									
	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Revenues										
Local sources										
Local tax	\$ 4,260,495	\$ 3,722,767	\$ 4,053,091	\$ 3,818,164	\$ 3,413,337	\$ 3,208,770	\$ 3,074,108	\$ 2,958,685	\$ 2,693,149	\$ 2,521,084
Tuition	647,414	766,587	703,892	618,727	590,209	603,302	534,280	466,772	395,840	340,475
Other	336,259	278,667	424,693	286,030	323,266	527,055	355,805	399,915	409,119	314,129
Intermediate sources	-	-	-	-	-	-	-	-	-	12,600
State sources	4,364,003	4,514,357	3,723,746	3,731,928	3,819,004	3,124,390	3,655,379	3,494,399	3,053,772	2,965,288
Federal sources	187,375	169,147	174,256	292,192	203,422	536,662	179,295	144,692	133,911	147,397
Total revenues	<u>\$ 9,795,546</u>	<u>\$ 9,451,525</u>	<u>\$ 9,079,678</u>	<u>\$ 8,747,041</u>	<u>\$ 8,349,238</u>	<u>\$ 8,000,179</u>	<u>\$ 7,798,867</u>	<u>\$ 7,464,463</u>	<u>\$ 6,685,791</u>	<u>\$ 6,300,973</u>
Expenditures										
Current										
Instruction										
Regular	\$ 3,328,801	\$ 2,954,866	\$ 2,812,839	\$ 2,885,460	\$ 2,665,176	\$ 2,671,903	\$ 2,862,465	\$ 2,529,325	\$ 2,327,498	\$ 2,340,221
Special	1,146,067	1,097,985	1,075,598	1,199,945	1,153,555	1,084,270	969,265	851,882	775,085	717,324
Other	981,931	1,016,927	1,045,724	897,345	969,102	927,222	719,521	781,751	707,213	440,947
Support services										
Student	184,576	135,667	140,433	138,038	132,164	120,763	78,088	73,865	76,196	91,367
Instructional staff	209,454	216,154	237,069	258,356	320,413	386,363	290,327	393,429	422,532	269,235
Administration	1,303,618	1,139,705	1,176,105	1,023,264	916,191	894,878	942,053	760,712	722,347	659,599
Operation and maintenance of plant	813,735	800,872	669,945	647,451	634,636	604,105	648,824	597,414	523,452	495,074
Transportation	516,535	513,888	402,859	395,545	417,337	330,270	383,141	250,736	280,656	361,661
Non-instructional programs	685	-	-	-	-	1	-	-	-	-
Other expenditures	229,638	214,512	337,290	1,370,333	588,256	3,275,850	804,363	117,250	229,728	75,898
Facilities acquisition										
Long-term debt										
Principal	480,000	475,000	420,000	1,713,980	415,000	400,000	290,000	280,000	260,000	265,395
Interest and other charges	176,710	184,852	192,403	247,485	258,089	200,568	108,497	120,692	131,900	198,608
AEA flowthrough	266,174	262,735	253,035	253,795	278,007	259,507	234,627	222,787	205,846	194,410
Total expenditures	<u>\$ 9,637,924</u>	<u>\$ 9,013,163</u>	<u>\$ 8,763,300</u>	<u>\$ 11,030,997</u>	<u>\$ 8,747,926</u>	<u>\$ 11,155,700</u>	<u>\$ 8,331,171</u>	<u>\$ 6,979,843</u>	<u>\$ 6,662,453</u>	<u>\$ 6,109,739</u>

See accompanying Independent Auditor's Report.

Kay L. Chapman, CPA PC

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of
Highland Community School District:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Governmental Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Highland Community School District as of and for the year ended June 30, 2015, and the related Notes to Financial Statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated February 23, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Highland Community School District's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Highland Community School District's internal control. Accordingly, I do not express an opinion on the effectiveness of Highland Community School District's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified a deficiency in internal control I consider to be a material weakness.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies described in Part I of the accompanying Schedule of Findings as item A to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Highland Community School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the District. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

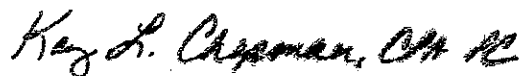
Highland Community School District's Responses to the Findings

Highland Community School District's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. Highland Community School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of Highland Community School District during the course of my audit. Should you have any questions concerning any of the about matters, I shall be pleased to discuss them with you at your convenience.



Kay L. Chapman, CPA PC
February 23, 2016

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2015

Part I. Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES

- A. Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts and disbursements and bank account reconciliations within each fund were handled by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response and Corrective Action Planned - As of November 2013, we have an individual that takes all the bank deposits to the bank. This individual does not have any other accounting functions. We believe this change in procedure enhances our controls and helps with segregation of duties. We will review our procedures and implement changes to improve internal control, as we deem necessary.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE

No matters were noted.

Part II. Other Findings Related to Required Statutory Reporting:

1. Certified Budget - Expenditures for the year ended June 30, 2015 exceeded the amount budgeted in the non-instructional programs function.

Recommendation - The certified budget was amended; however, not to sufficient amounts to cover expenditures. The certified budget should have been amended to sufficient amounts in accordance with Chapter 24.9 of the Code of Iowa before expenditures were allowed to exceed the budget.

Response - Future budgets will be amended sufficiently to ensure that the certified budget amounts are not exceeded.

Conclusion - Response accepted.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2015

2. Questionable Expenditures - I did not note any expenditures that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979, were noted.
3. Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
4. Business Transactions - No business transactions between the District and District officials were noted.
5. Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. Board Minutes - I noted no transactions requiring Board approval which had not been approved by the Board.
7. Certified Enrollment - No variances in the basic enrollment data certified to the Iowa Department of Education were noted.
8. Supplementary Weighting - No variances regarding the supplementary weighting certified to the Iowa Department of Education were noted.
9. Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy were noted.
10. Certified Annual Reports - The Certified Annual Report was certified timely to the Department of Education.
11. Categorical Funding - No instances were noted of categorical funding being used to supplant rather than supplement other funds.
12. Statewide Sales, Services and Use Tax - No instances of noncompliance with the use of the statewide sales, services and use tax revenue provisions of Chapter 423F.3 of the Code of Iowa were noted.

Pursuant to Chapter 423F.5 of the Code of Iowa, the annual audit is required to include certain reporting elements related to the statewide sales, services and use tax revenue. Districts are required to include these reporting elements in the Certified Annual Report (CAR) submitted to the Iowa Department of Education. For the year ended June 30, 2015, the District reported the following information regarding the statewide sales, services and use tax revenue in the District's CAR:

HIGHLAND COMMUNITY SCHOOL DISTRICT
Schedule of Findings
For the Year Ended June 30, 2015

Beginning balance		\$ 753,233
Revenues		
Statewide sales and services tax revenue	\$ 615,818	
Contributions	117,431	
Interest	<u>9</u>	733,258
Expenditures/transfers out		
School infrastructure		
Equipment and vehicles	\$ 357,287	
Other improvements	86,962	
Debt service for school infrastructure		
Revenue debt	<u>303,835</u>	<u>748,084</u>
Ending balance		<u>\$ 738,407</u>

For the year ended June 30, 2015, the District did not reduce any levies as a result of the moneys received under Chapter 423E or 423F of the Code of Iowa.

13. Financial Condition - The District's governmental activities had a \$4,045,389 negative unrestricted net position and the business type activities had a \$41,254 negative unrestricted net position and \$4,283 negative total net position at June 30, 2015. The Enterprise Fund-School Nutrition Fund and the Enterprise Fund-Preschool Fund had unreserved, undesignated deficits of \$27,681 and \$13,573, respectively at June 30, 2015.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate these deficits.

Response - These negative balances were the result of implementing GASB 68 and recognizing pension related deferred outflows of resources, liabilities, deferred inflows of resources and expenses. We will review the situation and implement changes, as needed.

Conclusion - Response accepted.

HIGHLAND COMMUNITY SCHOOL DISTRICT
Audit Staff
June 30, 2015

This audit was performed by

Kay Chapman, CPA
Terri Slater, staff accountant